

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY,)	
)	
)	
Approval of Energy Efficiency and)	Docket No. 07-0540
Demand- Response Plan Pursuant to Section 12-103(f) of)	
the Public Utilities Act)	

Rebuttal Testimony of
PAUL R. CRUMRINE
Director, Regulatory Strategies & Services
Commonwealth Edison Company

CONFIDENTIAL FILE
P.U. DOCKET NO. 07-0540
ComEd Exhibit No. 11.0
Witness _____
Date _____

December 21, 2007

ComEd Ex. 11.0

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1 **I. Introduction and Purpose**

2 **A. Identification of Witness**

3 Q. Please state your name.

4 A. Paul R. Crumrine.

5 Q. Are you the same Paul R. Crumrine who submitted direct testimony on behalf of
6 Commonwealth Edison Co. ("ComEd") in this docket?

7 A. Yes.

8 **B. Purposes of Testimony**

9 Q. What is the purpose of your rebuttal testimony?

10 The purpose of my rebuttal testimony is to respond to the direct testimony of Illinois
11 Commerce Commission (the "Commission" or "ICC") Staff ("Staff") witness Ms. Bonita
12 A. Pearce; Building Owners and Managers Association of Chicago ("BOMA") witness
13 Mr. Ralph Zarumba; Citizens Utility Board ("CUB") witness Mr. Christopher Thomas;
14 Environmental Law & Policy Center ("ELPC") witness Mr. Geoffrey C. Crandall;
15 Illinois Attorney General ("AG") witness Mr. Philip H. Mosenthal; and Illinois Industrial
16 Energy Consumers ("IIEC") witnesses Mr. Robert Stephens and Mr. David L. Stowe.

17 **C. Summary of Conclusions**

18 Q. Please summarize the conclusions of your rebuttal testimony.

19 A. I conclude the following:

- 20 1. A single cent per kilowatt-hour ("kWh") charge that applies uniformly to
21 all customer classes for the recovery of costs under Rider EDA is just and
22 reasonable and is supported by ICC Staff. A usage-based charge also

recognizes the indirect benefits all electricity consumers are expected to experience;

2. The IIEC proposal to allocate costs to alleged “cost causers” through the development of separate cent per kWh charges for residential customers, non-residential customers with demands under 1 megawatt (“MW”), and non-residential customers with demands over 1 MW is inconsistent with the mandatory energy savings goals and requirements of Section 12-103 of the Public Utilities Act (“Act”), ignores the indirect benefits all electricity consumers are expected to experience, and should be rejected;

3. BOMA’s proposal to set fifteen separate charges, one for each delivery class, based on the formulas set forth in Section 12-103(d) is incomplete, ignores the indirect benefits all electricity consumers are expected to experience, and should be rejected;

4. AG’s comments (or proposal) regarding the amortization of program costs should be rejected because proposed Rider EDA is already consistent with the traditional ratemaking treatment of supply-side resources and the comments (proposal) are vague and, depending on the intent, raise significant financial issues that cannot be adequately addressed within this compressed proceeding;

5. Staff’s request for a clarification of the definition of Incremental Costs in Rider EDA is reasonable and, if ComEd’s Plan is approved, will be made

in ComEd's compliance filing. ComEd requests at least 10 days to prepare such compliance filing;

6. ELPC's general concerns and recommendations concerning Staff oversight of ComEd's cost recovery under Rider EDA have already been addressed;

7. CUB's concerns regarding the Nature First expansion costs appear to be based on a misunderstanding about the purpose of ComEd's estimates of such costs and cost recovery under Rider EDA. ComEd is not seeking pre-approval of the Nature First cost estimates or to fix such estimated amounts for cost recovery purposes.

II. Cost Recovery Tariff Mechanism

A. Rate Design

Q. Have any parties entered testimony concerning ComEd's proposal to apply the Energy Efficiency and Demand Response Adjustment ("EDA") uniformly to all customers through a single cents per kWh charge?

A. Yes. While ICC Staff witness Mr. Peter Lazare expresses support for the single cent per kWh charge (*see* ICC Staff Ex. 3.0), the IIEC and BOMA witnesses generally oppose the single cent per kWh charge and suggest alternatives.

Q. What are IIEC and BOMA witnesses' recommendations concerning rate design as you understand them?

A. IIEC witness Mr. Stephens proposes that the costs associated with the programs required by Section 12-103 should be allocated among three groups of customers (namely,

66 residential customers, non-residential customers with demands under one MW and non-
67 residential customers with demands over one MW) based on the program dollars
68 expended on such groups. Mr. Stephens concludes that “[i]t is fundamentally unfair for
69 some customer classes to be required to pay disproportionate amounts in excess of the
70 costs they cause, for programs that do not directly benefit them or for which they are not
71 eligible.” (IIEC Ex. 1.0, 11:180-184). IIEC witness Mr. Stowe, whose direct testimony
72 attempts to allocate the estimated program expenditures to the three customer groups
73 proposed by Mr. Stephens, asserts that ComEd “does not attempt to identify the
74 beneficiaries or cost-causers of various program costs, nor does it prevent one customer
75 class from subsidizing another.” (IIEC Ex. 2.0, 3:56-58). Mr. Stowe concludes:

76 As proposed, ComEd’s Plan recovers a disproportionately [*sic*]
77 small amount of revenue from Residential customers as compared
78 to the cost of Energy Efficiency incentives offered them, and a
79 disproportionately [*sic*] large amount of revenue from Large C&I
80 customers, with a peak demand over one megawatt (MW), as
81 compared to the cost of incentives offered them.

82 (IIEC Ex. 2.0, 2:34-3:39). With respect to the recovery of demand response and energy
83 efficiency program costs, IIEC essentially proposes to apply the traditional ratemaking
84 principle of allocating cost to the cost causers by establishing three separate cent per kWh
85 charges, one for each group.

86 On the other hand, BOMA witness Mr. Zarumba proposes to establish fifteen
87 separate cent per kWh charges, one for each delivery service class and each Plan year, or
88 forty-five charges in total. Instead of allocating program expenditures directly based on
89 cost causation, BOMA initially would determine the charges for each Plan year by
90 applying the formulas set forth in Section 12-103(d) on a class-by-class basis, thereby
91 establishing a “rate screen” for each delivery class. (See BOMA Ex. 1.0, 10:195-11:207;

BOMA Ex. 1.3). Mr. Zarumba opines that his approach is “superior from a policy standpoint and is consistent with the legislation.” (*Id.*, 11:212-213). Alternatively, Mr. Zarumba would support grouping customers for purposes of calculating the charges. (*Id.*, 11:213-215).

Q. Is an allocation of program costs to customer classes or groups based on the program dollars expended on such classes or groups appropriate?

A. No. The IIEC proposal would require a group-by-group or class-by-class cost tracking and allocation process, thereby increasing the administrative burden and cost of implementing ComEd’s Plan and detracting from actual program efforts. (See ComEd Ex. 9.0). Furthermore, it is ComEd’s opinion that allocating program costs to individual groups or classes in proportion to the dollars spent on each class, as IIEC proposes, would not result in charges that are any more just and reasonable than those resulting from the single cent per kWh charge proposed by ComEd.

~~Section 12-102(a) of the Illinois Electric Utility Act provides:~~

~~It is the policy of the State that electric utilities are required to pursue cost-effective energy efficiency and demand response measures to reduce delivery load. Requiring investment in cost-effective energy efficiency and demand response measures will reduce direct and indirect costs to consumers by decreasing environmental impacts and by avoiding or delaying the need for generation, transmission, and distribution infrastructure.~~

~~(220 ILCS 5/12-102(a)) (emphasis added). This policy makes clear that the measures to be implemented pursuant to Section 12-102 are for the benefit of society, in general, and Illinois electricity users, in particular. Furthermore, considering that Section 12-102(b) and (c) set forth energy efficiency and demand response goals for ComEd, and Section 12-102(d) requires ComEd’s portfolio of energy efficiency measures to “represent a~~

118 ~~diverse cross-section of opportunities for customers or a limited number of participants~~
119 ~~(emphasis added). It is irrelevant from a ratemaking perspective whether more program~~
120 ~~dollars ultimately are spent on a particular customer group than on other groups.~~ Simply put,
121 the goals must be met regardless of the customer groups or classes from which the energy
122 savings are obtained or, in turn, where the program dollars are actually spent. Under the
123 circumstances, customer eligibility for certain programs does not confer any unique
124 responsibility for the cost incurred in offering those programs, just as customer
125 ineligibility does not create any limitations on responsibility for the costs of programs
126 that must be offered to other customers to meet the requirements of the law and the
127 savings goals. As a result, the traditional class or group-based distinctions used for
128 ratemaking purposes are meaningless, as no customer is the "cost-causer" in the context
129 of a mandatory energy efficiency and demand response program such as this one.

130 Additionally, in Mr. Lazare's opinion, "[w]hile a uniform per-kWh charge will
131 not ensure that charges will match costs for all customer groups, it recognizes, in a
132 reasonable manner, that expenditures are being made for all customer groups." (ICC
133 Staff Ex. 3.0, 5:99-101).

134 Q. Are there any inconsistencies in the IIEC's recommended cost allocations?

135 A. Yes. The low-income residential customer programs mandated by Section 12-103(f)(4)
136 are a prime example. Mr. Stowe proposes to allocate the cost of these programs solely to
137 residential customers (IIEC Ex. 2.0, 9:178-10:196), yet neither Mr. Stowe nor Mr.
138 Stephens explain why it is fair for residential customers, in general, to be required to bear
139 the full burden "for programs that do not directly benefit them or for which they are not
140 eligible." While IIEC recognizes differences between non-residential customers with

demands above and below one MW, it treats residential customers as one amorphous group and does not acknowledge any responsibility for a share of these mandatory programs' cost. This inconsistency in IIEC's approach underscores my previous point that IIEC's proposal generally ignores the mandates of Section 12-103(d).

Q. It is clear from your previous responses that ComEd does not find it appropriate to attempt to allocate costs to the so-called "cost causers." But, is Mr. Stowe's assertion that ComEd has failed to identify the "beneficiaries" of these programs (IIEC Ex. 2.0, 3:56-58) accurate?

A. No. While "the customers who benefit most from the energy efficiency and demand response programs are those who see direct energy or demand cost savings through participation in the programs," as Mr. Stephens correctly notes (IIEC Ex. 1.0, 11:186-188), it would be illogical to allocate the full program costs to the very customers ComEd is hoping to encourage to participate (which even IIEC seems to recognize implicitly through its proposal). However, program participants are not the only beneficiaries of the energy efficiency and demand response measures mandated by Section 12-103.

Energy efficiency and demand response measures are generally considered to relieve (to some extent) the upward pressure on market prices for electric energy and capacity (*see, e.g.* ICC Staff Ex. 3.0, 5:105-107; BOMA Ex. 3.0, 4:70-80), and ComEd and alternative suppliers must procure supply from the market (to some extent) to serve their customers. Therefore, the indirect benefits of ComEd's programs accrue to all electric consumers in Northern Illinois in the general form of reduced supply costs, as contemplated in Section 12-103(a). In light of the indirect benefits, a single usage-based charge that applies uniformly to all customers reasonably allocates the costs of the

164 programs to the beneficiaries. Mr. Lazare reaches a similar conclusion in his direct
165 testimony. (See ICC Staff Ex. 3.0, 5:103-109).

166 Q. How does ComEd respond to BOMA's proposal?

167 A. At first glance, BOMA's proposal may not seem like an unreasonable approach to the
168 design of the EDA charges, as it does possess an air of consistency with Section 12-
169 103(d), as Mr. Zarumba asserts. (BOMA Ex. 1.011:212-213). However, Mr. Zarumba's
170 conclusion that BOMA's proposal is "superior from a policy standpoint" (*id.*, 11:212-
171 213) is unsupported as no "policy" arguments are offered in his testimony and Section
172 12-103(d) does not necessarily serve as a sound basis for rate design. Although Section
173 12-103(d) serves as a means of providing guidance to ComEd's total program
174 expenditures, applying its formula for purposes of rate design would be somewhat
175 arbitrary. Indeed, I struggle to see the ratemaking "policy" rationale for what would
176 essentially be charges that increase annually in 0.5% increments based on historic
177 bundled rates and prices that are not even in effect when the EDA charges would be
178 applied to customers' bills. And, BOMA's proposal would not recognize the usage-
179 related benefits that were contemplated in the law, as ComEd's proposal does.

180 Most importantly, the proposal is not sufficiently developed to be implemented by
181 ComEd. Key functions of Rider EDA are not specifically addressed, and the implications
182 of BOMA's approach have not been fully articulated. For example, Mr. Zarumba uses
183 the term "rate screen" in BOMA Exhibit 1.3, but offers no explanation of what that term
184 means to BOMA in the context of his proposal or Section 12-103(d). Furthermore, Mr.
185 Zarumba does not address the annual reconciliation process set forth in proposed Rider
186 EDA, which will true-up the accrued EDA revenues with actual costs, or how such true-

187 up would be performed with respect to fifteen separate delivery classes. To the extent
188 that BOMA regards the fifteen "rate screens" as caps on annual cost recovery from the
189 fifteen delivery service classes, respectively, and/or would seek to true-up EDA revenues
190 from each class with an allocation of the Incremental Cost incurred for each class,
191 ComEd would more vehemently object to such proposal.

192 Contrary to Mr. Zarumba's assertions (*see* BOMA Ex. 1.0, 10:186-194), such a
193 proposal would reduce the level of revenues that ComEd will have to expend on the
194 program and, therefore, impede ComEd's ability to implement the programs.
195 Specifically, it would limit ComEd's expenditures on any one class to the dollar value of
196 the applicable cap, which is contrary to the intent of Section 12-103(d) and would stymie
197 ComEd's ability to meet the goals. It is ComEd's position that Section 12-103(d)
198 pertains solely to total program expenditures, not individual class cost recovery. In
199 addition, such an approach would require extensive class-by-class cost tracking and
200 allocation, thereby increasing the administrative burden and cost of implementing
201 ComEd's Plan and detracting from actual program efforts. (*See* ComEd Ex. 9.0).

202 ComEd continues to believe its proposed single cent per kWh charge, which is
203 supported by ICC Staff, is the more reasonable approach to rate design.

204 Q. Mr. Zarumba also comments on ComEd's approach to distribution rate design and cost
205 allocation. (BOMA Ex. 1.0, 12:220-12:235). How does ComEd respond?

206 A. ComEd agrees with Mr. Zarumba that such issues would be more appropriately addressed
207 during a distribution rate case proceeding (*id.*, 12:236-13:242), as such matters are
208 beyond the scope of this proceeding.

209 **B. Cost Recovery**

210 Q. Have any parties entered testimony opposing any of the costs ComEd proposes to recover
211 through Rider EDA?

212 A. No. However, Mr. Mosenthal proposes to amortize energy efficiency costs using the
213 appropriate cost of capital and recover such costs over time (*see* AG Ex. 1.0, 38:7-39:21);
214 Ms. Pearce requests a clarification of the definition of Incremental Costs in Rider EDA
215 (*see* ICC Staff Ex. 2.0, 3:50-4:90); and Mr. Crandall makes various recommendations
216 concerning ICC Staff oversight of ComEd cost recovery under Rider EDA (*see* ELPC Ex.
217 1.0, 5:121-134).

218 Q. How does ComEd respond to Mr. Mosenthal's comments regarding the "possibility of
219 amortizing costs over the life of the savings associated with energy efficiency and
220 demand-response programs, similar to investments in supply"? (AG Ex. 1.0, 6:8-12).

221 A. It is unclear to ComEd whether AG is only entering an observation or making a specific
222 proposal through Mr. Mosenthal's testimony. Furthermore, it is unclear how Mr.
223 Mosenthal's comments differ from what ComEd has proposed, and to the extent they do,
224 how the recovery of costs under Rider EDA would differ from the recovery of so-called
225 "supply-side resources."

226 At first blush, his discussion concerning the amortization of energy efficiency (*see*
227 *id.*, 38:7-21) seems to suggest that ComEd is proposing only to recover the capital
228 investments associated with its demand response programs over time. That is not the
229 case. As indicated in ComEd's direct testimony, Rider EDA provides for the recovery of
230 the revenue requirement equivalent for capital investments, including a return of and on
231 such investments. Although such ratemaking treatment initially will be limited to capital

investments associated with the proposed expansion of Nature First, nothing would limit such ratemaking treatment to capital investments related to demand response programs or preclude capital investments associated with energy efficiency from such treatment -- assuming, of course, ComEd's proposal is approved. (*See generally* ComEd Ex. 5.0, 8:178-183; ComEd Ex. 3.0, 12:245-256; ComEd Ex. 1.0, Appendix F). Thus, AG's comments are either misinformed, at worst, or an endorsement of ComEd's proposed Rider EDA, at best.

To the extent that AG is actually recommending that the Commission require all program costs to be amortized (*see* AG Ex. 1.0, 39:2-3), then Mr. Mosenthal's comparison to the treatment of supply side resources is somewhat misleading. Not all supply-side resource (*i.e.*, generation plant) costs are amortized, as his testimony suggests. Indeed, some generation plant costs are expensed (*e.g.*, labor and light bulbs), while other costs are capitalized (*e.g.*, utility-owned plant). In this respect, proposed Rider EDA and its treatment of capital expenses is consistent with the traditional ratemaking treatment of supply-side resources, as well as distribution resources. Thus, it is unclear what distinctions Mr. Mosenthal is attempting to draw through his comparison.

Lastly, while Mr. Mosenthal notes that by amortizing costs over the useful life of the measure ComEd could avoid unnecessarily increasing rates and "hitting the statutory spending cap" (*id.*, 39:1-4), he neither addresses the need nor the potential financial consequences of doing so. As Mr. Brandt notes, ComEd believes that it can achieve the statutory targets within the spending screens. (ComEd Ex. 9.0). Moreover, no party has objected to the potential residential rate impact of ComEd's Plan, which would range from an average increase of 41¢ per month (June 2008 through May 2009) to \$1.27 per

month (June 2010 through May 2011) assuming annual expenditures at the levels of the spending screens, not even AG. Above all, the amortization of all program costs raises much larger financial issues associated with deferred cost recovery that cannot be adequately addressed within such an expedited proceeding, and Mr. Mosenthal's two-page discussion of this issue provides insufficient detail for ComEd to adequately rebut.

For the foregoing reasons, ComEd proposes that AG's comments (or proposal) be rejected.

Q. With respect to the definition of Incremental Costs in proposed Rider EDA, Ms. Pearce requests that ComEd "clarify that the date limitation of cost recovery applies to all incremental costs and not just legal and consultative costs." (ICC Staff Ex. 2.0, 3:50-4:90). How does ComEd respond?

A. ComEd's intent is to limit cost recovery through Rider EDA to all Incremental Costs incurred after August 28, 2007, the effective date of Public Act 95-0481. I believe the source of any confusion on this matter stems from the fact that the phrase "after August 28, 2007" was specifically used with respect to "legal and consultative costs" in the definition of Incremental Costs. This was done solely for the sake of clarity because ComEd began incurring such costs before that date. ComEd will refine the definition of Incremental Costs in Rider EDA to better reflect its intent in its compliance filing in this proceeding. ComEd requests at least 10 days after the entry of the Commission's order approving ComEd's Plan to prepare the tariff compliance filing.

275 Q. Mr. Crandall expresses general concerns regarding the costs to be recovered through
276 Rider EDA and makes various recommendations concerning ICC Staff oversight and
277 requirements for an audit. (ELPC Ex. 1.0, 5:121-134). How does ComEd respond?

278 A. As noted in my direct testimony, Rider EDA establishes annual reporting requirements,
279 including a verified internal audit, the scope of which was developed with input from
280 ICC Staff through pre-filing discussions. (See ComEd Ex. 5.0, 10:219-232). ComEd, of
281 course, commits to working cooperatively with ICC Staff to address any questions or
282 concerns they might have regarding the operation of Rider EDA.

283 Q. Previously, you indicated that no party entered testimony opposing any of the costs
284 ComEd proposes to recover through Rider EDA. However, Mr. Thomas opines that
285 certain aspects of ComEd's estimates of the cost of the Nature First expansion appear
286 inflated. (CUB Ex. 1.0, 2:38-40; 4:71-7:152). How do you reconcile your statement with
287 the questions posed by Mr. Thomas?

288 A. Mr. Thomas' questions appear to concern the purpose of the cost estimates prepared for
289 this proceeding, not the actual costs that ComEd will ultimately be allowed to recover
290 through Rider EDA. In fact, there appears to be some confusion as to the purpose of the
291 estimates of the cost to expand Nature First that were included in the direct testimony of
292 ComEd witness James C. Eber. Specifically, it would appear that Mr. Thomas is under
293 the impression that ComEd is seeking pre-approval to recover the dollar amounts
294 presented in the estimates prepared by Mr. Eber (ComEd Ex. 3.0, 13:271-281; ComEd
295 Ex. 3.1) through Rider EDA without an annual true-up. For example, in summarizing his
296 concerns regarding the use of a 2.5% escalation factor and promotional costs, Mr.
297 Thomas states:

298 Cost estimates provided for Nature First expansion, which ComEd
299 used to develop the revenue requirement that it proposes to recover
300 through Rider EDA, appear to be inflated.

301 (CUB Ex. 1.0, 6:148-7:152). In retrospect, I can see how Mr. Eber's use of the term
302 "annual revenue requirement" in his direct testimony to describe what are only cost
303 estimates presented for purposes of this proceeding could lead one to this conclusion.
304 But, this is not how Rider EDA would operate.

305 To clarify this matter, ComEd is not seeking pre-approval of the Nature First cost
306 estimates or to fix such estimated amounts for cost recovery purposes. Although Rider
307 EDA initially requires a projection of net program costs to set the EDA charge, the
308 proposed tariff also requires an annual proceeding to reconcile the accrued EDA revenues
309 and the actual costs, including the Nature First expenses identified by Mr. Thomas. Thus,
310 any concerns regarding the assumptions underlying the projections used by ComEd will
311 be resolved in the course of such annual proceedings. Furthermore, the estimates
312 presented in this case are subject to further refinement, as the first EDA charge
313 computation is not required to be filed with the Commission until May 20, 2008 and the
314 projections supporting any EDA charge filing will only be of the net costs for one Plan
315 year. (*See generally* ComEd Ex. 1.0, Appendix F).

316 **III. Cost Recovery under Section 12-103(d) of the Act**

317 Q. In your direct testimony, you stated that "[t]here are a couple of circumstances under
318 which expenditures for a Plan year may exceed the amounts prescribed by Section 12-
319 103(d)" (emphasis added), and you refer to the direct testimony of ComEd witness
320 Michael S. Brandt (ComEd Ex. 2.0) for a discussion of those circumstances. (ComEd
321 Ex. 5.0, 16:367-369). However, Ms. Pearce notes only one such circumstance being

322 described in Mr. Brandt's testimony and questions whether "ComEd also seeks to defer
323 costs in excess of the annual cap in those circumstances where there are no savings to
324 bank." (ICC Staff Ex. 2.0, 6:133-139). How do you respond?

325 A. In addition to addressing the specific circumstance where ComEd exceeds the annual
326 goals and the amounts prescribed by Section 12-103(d), Mr. Brandt also comments on the
327 potential difficulty ComEd expects in hitting, to the penny, any dollar target for a
328 program of this magnitude:

329 ComEd believes it can manage the portfolio and its programs in
330 such a way to 'accelerate' or 'throttle back' various activities to
331 increase or decrease participation as needed to generate annual
332 results within the 'ballpark' of the goal, it would be impossible to
333 do so with absolute precision.

334 (ComEd Ex. 2.0, 39:883-40:887). Thus, regardless of whether or not the annual goals are
335 achieved or not, ComEd's costs may exceed the spending screens established by Section
336 12-103(d). So, to clarify, this is the other circumstance to which I was referring in my
337 direct testimony. In his rebuttal testimony (ComEd Ex. 9.0), Mr. Brandt addresses
338 further the appropriateness of recovering annual costs in excess of the amounts prescribed
339 by Section 12-103(d).

340 Q. Does this conclude your rebuttal testimony?

341 A. Yes.